

***HamzeiAnalytics.com* Presents “A Trading Room Session with Brian Shannon”**



On April 10th, 2007, *Hamzei Analytics, LLC* hosted Brian Shannon of [Alpha Trends](http://www.alpha-trends.com) in its *SuperPlatinum* Trading Room (http://www.hamzeianalytics.com/superplatinum_details.asp).

Below is the edited transcript of that Trading Room Session, sourced from its original contents and modified as necessary for clarification and brevity.

Fari Hamzei: Good afternoon, all.

Brian Shannon: Hello, everyone.

Fari Hamzei: Welcome to our April Open Website Day. We do this once a month and the schedule is here at <http://www.hamzeianalytics.com/TradingRoom.asp> Today, we are honored to present to you Brian Shannon of AlphaTrends Blog. I have known Brian since open day of MarketWise Trading School in Denver (circa January 2002). He is a very smart stock and derivatives trader and runs a very robust blog—always with very good trading ideas. So, without further ado, let me step back and let Brian take over. I will post charts as he calls it. To see the charts, use our Streamer. Link is on SuperPlatinum Menu.

Brian Shannon: I'm a full-time trader, mainly short-term. I've been trading full-time for about 12 years now. I consider myself to be a trend trader, and most of my trades—in fact 90% or better—are equities. I do trade options as well, nothing fancy just straight buys puts and calls. I've been profitable every single year that I've traded—but definitely not every day not every week or every month. I do trade an account that can be viewed by the public at [World Cup adviser.com](http://WorldCupAdviser.com). And since I started that account 13 months ago in a shown in net gain of 66% through yesterday's quotes. It is a long only account—just stocks and stocks that are priced under \$25 a share. Some interesting statistics about that account are that I have had 163 winners and 162 losers, which means my batting average through yesterday was just 50.2%. Most people wouldn't be impressed with that—but that's not the number that matters. The number that matters is the net 66%.

My success in the markets I think is due to very strict money management. I hate to lose. And when I do try to make sure that it's just a small amount. My main strategy or approach to the markets is what I call trend alignment. I keep my analysis very simple. My analysis is 99% driven by technical analysis. Technical analysis allows me to be 100% objective about what I'm seeing rather than relying on what I think should happen in the market. I found out long ago the market doesn't care what I think should happen. The discipline is much more important than a high IQ. My main tools of analysis are first price action observed on multiple times. On my charts

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I also use volume and moving averages. Those are my main tools; 90-plus percent of my decisions are made with just price volume and moving averages. Other things I look at technically include the traditional pivot point analysis, Fibonacci levels, short interest volume weighted average price (VWAP), and that’s about it.

Brandon Gable: What do you use to calculate VWAP?

Brian Shannon: When I look at charts what I try to do is to use them to understand the motivations of other participants. VWAP is calculated automatically by the trading software I use, which is Real Tick.

Fari Hamzei: TradeStation has it too -- not sure about eSignal.

Brian Shannon: Recognizing patterns is how most people begin looking at technical analysis and that's how I started as well. But what I noticed early on is that a lot of those patterns especially the most obvious ones tended to fail a lot. My primary focus today is to recognize trends on a larger timeframe, and then to enter those trends in what looks to be a low risk area on a shorter-term time. I almost always buying on strength, and when I sell short it is almost always on weakness. That’s the opposite of what a lot of people tell you that you should do. But to me it makes sense for my personality—which is that I don't like the stock going against me right from the start. And I also don't like to sit and watch the stock do nothing after I purchased it. I want momentum.

There are two types of risk in the market: risk of price and the risk of time. What we can do is take a look at a couple of the stocks that I've been looking at recently. The chart on the screen right now is a daily chart of STKL. We can see that the stock broke past resistance near 81 1/2 about a week ago. Since that breakout, the stock has held up nicely a bulb that prior resistance level. And on a weekly timeframe you'll notice that the stock made all-time highs. What you cannot see on this chart is the short interest position; as of March 15 there was a short position of over 7 million shares. With a stock trading just under all time highs this becomes an excellent candidate for a short squeeze. When the stock broke out none of those short sellers was in a profitable position. The only way to limit their losses was to repurchase the shares which they sold short.

M. Wolkstein: Where do you get your short interest data from Brian?

Brian Shannon: Seven million shares is a huge source of potential demand for a stock which is averaging just over 600,000 shares per day over the last month. I have a link on the right hand side of my blog titled “short interest,” which leads you to the short interest figures from NASDAQ. It also shows New York Stock Exchange figures as well,

M. Wolkstein: Thanks

Brian Shannon: So I look at this chart and I see a stock in an uptrend of the daily timeframe. And

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I see a low volume pullback to a prior level of resistance. To me that becomes a signal not to buy the stock but instead to examine it further on a shorter-term time. The shorter-term timeframe allows me to wait for evidence of the buyers regaining control of the short-term trend rather than blindly buying any perceived level of support which might be based on Fibonacci price stochastic etc. At the end of the day the only thing that really matters is price, which is why I only make a decision to buy or sell based on price action. The volume moving averages, short interest, Fibonacci etc. are all secondary to price.

Today I purchased the stock at \$12 because that is where the stock made a higher high on the short-term timeframe. My stop was then placed in \$11.85. Unfortunately the stock did not follow through as I anticipated, but it also didn't violate my stop which is why I remain long the stock. Let's look at a couple of other stocks. The solar group has been really strongly; some real big winners in there. FSLR has been one of the real leaders.

Duane Becker: What 'short-term timeframe' did you use?

Brian Shannon: For the long-term timeframe I generally start with the daily chart or maybe a weekly chart, if I need more information. I like to put the stock under a microscope and look at several other timeframes. A 60-minute timeframe or 30-minute timeframe with about 20 to 30 days of data is the next time I'll look at. Those two timeframes are for where I try to come up with a potential risk reward ratio. I then look at a 10-minute or 5-minute timeframe that might show 5 to 10 days worth of data. Those two timeframes allow me to fine tune my entry and decide exactly where my stops to go. If I'm trading a very volatile and liquid stock something like Google or the S&Ps I might look at one minute to minute or even a tick chart.

ESLR is another stock that has been strong, particularly today. You can see that this stock cleared some resistance near the \$11 level, and now it looks poised to continue to move up towards about 12 1/2. Other solar plays that look poised for further upside at this point are HOKU and ASTI. I am long HOKU and ASTI. Actually I own the warrants and the stock on ASTI. You can see that ASTI is very close to all-time highs. The warrant seems to be lagging behind just a bit which is why I purchased those \$2.12 today.

M. Wolkstein: Do you trade stocks about to break out from new highs? What kind of stop techniques do you use? Thanks.

Brian Shannon: My techniques are not really very different than any other of my other plays. By that I mean my primary focus is on controlling risk. ASTI is a good example of a stock about to break out the new highs. We've got an uptrending market and a very strong group with the solar companies. Today's close was a new high on a closing basis in ASTI, but the warrants closed more than \$0.20 below their closing high.

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Cary Kahn: Brian, you have had some great plays on your blog. Do you look over hundreds of stocks every day?

Brian Shannon: Actually yes I do. I do it very quickly. I look at approximately 300 stocks at the end of each day, and then narrow them down to about 20 or 30 that I want to study on shorter-term time frames. And then I choose three to five of those stocks to talk about in my videos.

Tom C.: Can you talk about your money management? Do you risk a certain percentage per play (varying the position size) or do you buy the same lot size per play?

Brian Shannon: There were a lot of factors that go into money management that often get overlooked. Liquidity is one of those, also volatility. Let's say I was comfortable putting \$100,000 into an idea. If the stock is \$20 a share and only trades 100,000 shares per day it wouldn't make sense to buy 5000 shares, right? Not to me at least. So for that stock I might only purchase 1500 shares. What I try to do as best I can is to make sure I limit my losses to an absolute dollar amount. That is what I like to keep as a constant.

Tom C: So you risk a different \$ amount per trade. Does that affect consistency?

Brian Shannon: So let's say I have a \$50 stock and my loss is our limited to \$1000. Depending on what I view the logical place for a stop becomes a factor in my position... but I think I need to risk a dollar per share if the most I would buy is 1000 shares. If I thought I could get away with a \$.50 stop, I might buy 2000 shares... It all depends on the perceived risk reward ratio—and the key word there is perceived.

People talk about risk-reward ratio as though there were constants. We have to remember that a risk-reward ratio is only as good as the original analysis. In other words it's garbage in garbage out.

Tom C: True, your entry and stop can be definite but the target is perceived.

Brian Shannon: Actually Tom your stock can also be perceived. hat happens if you have a stock like ImClone that gets halted intraday and then opens two points below your stop. Garbage in garbage out. It's only a perceived the level of risk. Fortunately events like the movement of ImClone don't happen too often. And if your position size isn't too large relative to the account size, it shouldn't have a large impact on the overall equity, but it still sucks if you get caught on the wrong side of it.

Other questions anyone? Are you familiar with my blog www.alphatrends.blogspot.com ?

M. Wolkstein: Do you look at intraday volume spikes for entry criteria? ASTI daily volume is on The low side now.

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Brian Shannon: A lot of times the volume comes towards the end of a move. In the case of ASTI if you look at a one minute chart of just today, you will notice that from 10 o'clock and 10:15 the stock rallied an increasing volume.

Fari Hamzei: The right hand side chart is hourly. {**FARI WHERE IS THE CHART LINK?**}

Brian Shannon: It then marked time for most of the rest of the day until about 3:45 p.m. when it broke past 950 on another surge in volume. In other words this is a case where looking at the short-term timeframe allowed you to look closer to the action to see the true demand increasing.

Fari Hamzei: The RED Bars on the lower hand side are IVBOs.

Brian Shannon: Even on that hourly chart you can see the last bar did show a larger volume.

Fari Hamzei: Intraday Volume Breakouts.

Brian Shannon: If you look at the last nine days of trading in AST I on an intraday timeframe you can see that it took out resistance at \$9.50. And you could make a case that that resistance level was an inverted head-and-shoulders pattern or maybe a couple of handles; either way it doesn't matter what you want to call it because the buyers are in control and the increasing volume tells me they're anxious to own. The low on April 2 was about \$7.80. The neck line of the INV HS pattern is it about 9.50.

Brian Shannon: So the height of the pattern is \$1.70. If you add that to the breakout point you get a target of \$11.20; that gives us a potential target area. That doesn't mean that's why would sell the stock but it does help me come up with a potential risk-reward ratio.

Fari Hamzei: Brian, can you share with us some examples of stocks you DON'T like, when you get a chance. Thanks.

Brian Shannon: That is a tough question Fari because I usually just ignore those stocks and move on so none come to mind.

Fari Hamzei: Fair enough.

Joseph Lawlor: Brian, when you are looking through the original hundreds of stocks, what criteria are you focusing on to narrow your choices?

Brian Shannon: Good question Joseph. First thing I look for is a trend of the daily timeframe. In real simple rule that I try to follow actually not a rule of the guideline is to trade in the direction of the 50 day moving average. If the 50 day moving average is advancing I consider the stock innocent until proven guilty. Whereas if it's declining I consider a guilty till proven innocent. What I generally focus on what I'm looking at the daily timeframe. Is it a low volume pullback in an uptrend or a low-volume rally in a downtrend? When I say low volume pullback I don't mean relative to the

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average daily volume—relative to an event. For instance with ASTI the event is the big gap higher and subsequent rally on March 15, and the subsequent pullback came on volume that was light relative to the advance. The big volume is off short anxious buyers whereas the low volume pullback shows (investors are) not in a rush to get out of it, which typically means after a normal pullback the buyers tend to reemerge.

M. Bedingfield: Are most of your losses taken at the original stop that you set?

Brian Shannon: Mark yes most of my losses were at the original stop or maybe slightly higher than that level if I see something that disturbs me and makes me think that that original stop will inevitably get hit.

M. Wolkstein: Brian could you repeat your entry and stop price for ASTI and technical reasoning for your stop? Thanks.

Brian Shannon: My entry on ASTI for the common stock was at \$9.45. That was anticipating a breakout because I saw volume coming into the stock late in the day. A potential target for ASTI is near \$11.20 based on the inverted head-and-shoulders pattern. My stop will be under today's afternoon consolidation low which is about \$9.08—that was my original stop. What I did though was to sell half of my common shares at \$9.67 and for the remaining shares my stop will now be breakeven unless we get a gap lower in the morning.

Fari Hamzei: Thank you all.

Brian Shannon: Thanks for taking your time to listen what I have to say, and be sure to visit my blog: www.AlphaTrends.blogspot.com.

Fari Hamzei: Thank you, Brian. It was great. Your blog is also linked from our blog.

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